

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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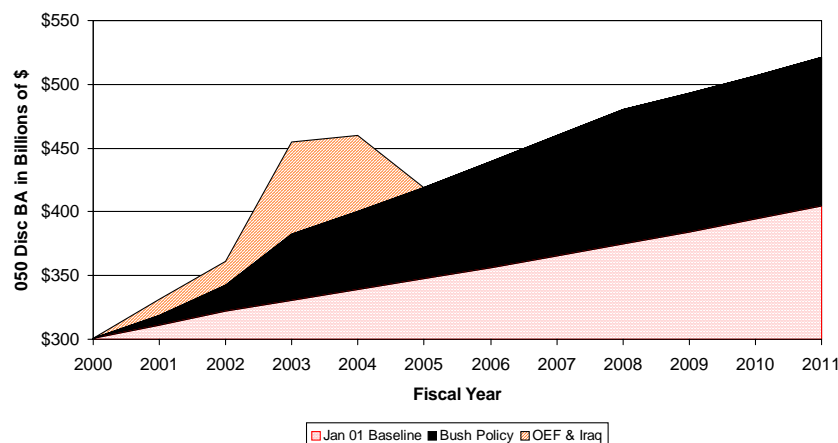
Defense Budget Grows Rapidly Under Bush Administration

Dear Democratic Colleague:

Reports indicate that the President's budget for 2005 will freeze non-defense discretionary spending, excluding homeland security. This seems to implicate non-defense discretionary spending as a source of the swelling deficit. In truth, when homeland security is excluded, non-defense discretionary spending has barely increased over the past three years. Non-defense budget authority increased from \$326 billion in 2002 to \$334 billion in 2003, and then edged up to \$338 billion in 2004, an increase of 1.2 percent over last year. Most of the rise in discretionary spending results from the increases in defense passed since the Bush administration took office and from further increases that are planned or probable.

Excluding the supplementals for operations in Iraq and Afghanistan, budget authority for national defense has increased by one third over the last four years, rising from \$300 billion in 2000 to \$400 billion in 2004. Including the military costs of operations in Iraq and Afghanistan that have been incurred to date, the defense budget has already increased by over 50 percent. The total increase in actual and projected defense spending since the Bush administration took office will reach \$1 trillion by 2011, compared with CBO's 2001 current services baseline, which depicts the spending needed to maintain the purchasing power of that year's \$300 billion defense budget.

Increased Cost of Defense Under Bush Administration

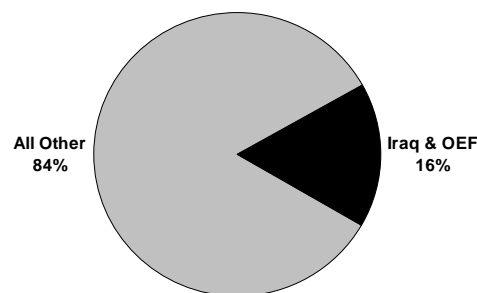


During the 1990s, Democratic and Republican administrations and Congresses agreed to reduce the size of the defense establishment after the end of the Cold War. Over that period, the number of active duty military personnel was reduced by one third. When the impact of a decade of inflation is taken into account, the fiscal year 2000 defense budget of \$332 billion (in constant 2004 dollars) represented a real savings of 29 percent from the last Cold War budget of \$428 billion in 1990. This savings was the post-Cold War peace dividend. Including the costs of Iraq, the defense budget in 2003 and 2004 exceeds that \$428 billion Cold War level in constant dollars. By 2007 the proposed defense budget will once again permanently exceed this level, even if there are no additional costs in Iraq, and even though the number of military personnel would still be 33 percent smaller than at the end of the Cold War.

Including the cost of military operations in Iraq and Afghanistan (also known as Operation Enduring Freedom, or OEF), and the response to the attack on September 11, 2001, the defense budget has increased by 52.9 percent (from \$300 billion in 2000 to \$460 billion in 2004) in the past four years, even though the number of military personnel has not increased since 2000. The number of military personnel is not projected to increase during the coming decade, so the increases in the defense budget to date, or planned for the future, are not caused by any increase in the size of the military.

Neither can these increases be explained solely by the costs of Iraq or the war on terrorism. While the exact amount of defense spending devoted to combating terrorism is impossible to specify with precision, the cost of Iraq and the response to September 11 combined are not the major source of this increased defense spending. In fact, assuming the current administration defense plan, by 2011 only about 16 percent of this increased spending will have been due to all defense supplemental requests since September 11, 2001, including the two major military operations in Afghanistan and Iraq.

Source of Defense Increases, 2001-2011



The current defense buildup will be difficult to sustain over the long term because of the fiscal crisis facing our nation and competing demands for shrinking resources. A recent study by the Congressional Budget Office (CBO) confirms that our current fiscal policies (including the defense spending projections described here) cannot be sustained.¹

Prepared by the House Budget Committee Democratic Staff

12/29/2003

¹Congressional Budget Office, *The Long-Term Budget Outlook*, December 2003.

Because defense spending is such a major component of federal spending, it must be included in any meaningful review or reform of our current fiscal policies.

The table below details the actual and proposed increases in defense spending under the Bush administration during the ten-year period 2002-2011. The estimated federal budget surplus over this period when President Bush took office was \$5.6 trillion. As the table demonstrates, about \$1 trillion of that surplus has been allocated to increased defense spending over and above the amounts needed to maintain the purchasing power of the \$300 billion defense spending level we had in 2000 over the next decade.

Under that baseline we would not have had a \$400 billion defense budget until 2011. Under Bush administration policies, we actually passed that level in 2003, and even if there are no future costs for Iraq we are now on track to exceed \$500 billion by 2010. This means that beginning in 2008 we would be spending at least an additional \$100 billion on defense each and every year compared to the levels projected in CBO's baseline when President Bush took office.

Defense Increases During Bush Administration (National Defense Discretionary Budget Authority in Billions of Dollars)											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-2011
CBO Baseline January 2001	321.8	330.3	338.9	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
Policy Increases Excluding Supplementals	20.7	51.8	61.1	72.0	83.2	94.2	105.3	108.7	112.5	116.4	826.0
Iraq/OEF Supplementals	18.4	72.4	59.9								150.7
Total Increase	39.0	124.2	121.1	72.0	83.2	94.2	105.3	108.7	112.5	116.4	976.7
Total Bush Defense Program	360.8	454.5	460.0	419.4	439.5	459.7	480.1	493.3	507.0	521.3	4595.7

The Administration's stated defense plans were very different when the President started proposing massive tax cuts in 2001. In fact, these latest projected defense spending levels exceed the long-term defense levels planned in the first Bush budget submitted for fiscal year 2002 by a similar amount (in excess of \$900 billion) over the ten-year period 2002 through 2011.

In fact, the figures in this table understate the impact of this increased defense spending on the federal budget deficit because:

- It excludes the considerable debt service on this trillion dollars of increased spending.
- It includes costs for operations in Iraq and Afghanistan only through 2004. But it is

virtually certain that there will be additional costs, and probably significant additional costs, in 2005 and future years. Those costs may be included in the 2005 budget or future budgets, or the administration may continue to seek supplemental funding for these costs outside the normal budget process; but either way, additional costs are likely. A recent CBO analysis noted that such contingency operations (which are traditionally not included in the regular defense budget, and are not included in the current defense budget projections) are likely to continue in these and other locations around the world. CBO estimated that the cost of such operations through 2011 could exceed \$269 billion.²

- It includes the Bush administration's proposed real defense increases only through 2008, the last year of the Administration's five-year budget window for the fiscal year 2004 budget request. But there could be future real increases planned for 2009, 2010 and 2011 (the Department of Defense [DOD] Future Years Defense Program for fiscal year 2004 assumed real increases averaging about 2.4 percent annually in the outyears).
- It excludes \$20 billion in additional defense spending above the baseline in 2001, mostly for the immediate response to the attack on the United States on September 11, 2001.
- It excludes the cost of the recently enacted tanker lease and purchase, which is over and above the Bush budget and this year's budget resolution. Through 2011, CBO estimates the cost of that deal at \$16.5 billion, with additional costs beyond 2011.
- It excludes the future costs of the recently enacted concurrent receipt benefit for present and future military retirees. These increased military retirement benefit payments are not treated as defense spending. However, accrual payments of approximately \$1 billion per year will be needed to set aside funds for the future costs of these new benefits beginning in 2004. Although the new law directed that the Treasury Department, rather than DOD, would be charged with those accrual costs, they are still additional defense costs the taxpayers will have to bear and will still be included in the national defense budget function.
- It does not include potential increases in the cost of carrying out the Administration's current long-range defense plan. The actual cost could exceed the amounts included in current budget projections due to higher-than-expected costs for new weapons systems and military health care costs, or for additional increases in pay and benefits. A recent CBO study estimated that these additional costs could total \$252 billion through 2011. This is in addition to the potential costs described above for continued operations in Iraq

² Congressional Budget Office, *The Long-Term Implications of Current Defense Plans: Summary Update for Fiscal Year 2004*, July 2003. For another estimate of the potential range of the future costs in Iraq only, including non-defense reconstruction costs, see the House Budget Committee Democratic Staff analysis *The Cost of War and Reconstruction in Iraq: An Update*, September 2003.

and Afghanistan.³

Even without these excluded future costs and additional debt service, the following table shows how significant the percentage increase in the defense budget is in both real and nominal terms.

Percentage Increases in Defense Budget Above January 2001 Baseline				
	Nominal Increase Including Supplementals	Real Increase Including Supplementals	Nominal Increase Excluding Supplementals	Real Increase Excluding Supplementals
2000-2004	52.9	38.5	33.0	20.5
2001-2011	57.1	24.0	63.6	29.1

Finally, the \$150 billion in costs for Iraq and the response to September 11 included in these totals represent only the defense – function 050 – costs since 2002. There were also increased costs for 2001, as noted above. And more importantly, this does not take into account increased spending outside the Department of Defense for homeland defense since September 2001, or the cost of Iraqi reconstruction, because those are outside the national defense budget function. All three aspects of such costs for Iraq and the war on terrorism – defense, homeland defense, and reconstruction and other foreign assistance – are likely to continue to demand increased funding after 2004.

The debate on security and fiscal policy during the coming year should focus on how much we need to devote to national security, and if further sustained increases are required, on how we should budget and pay for such increases, during a period when we must respond to an array of national security challenges around the world and record budget deficits here at home. I hope you will find this document of use in considering these issues.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

³ Congressional Budget Office, *The Long-Term Implications of Current Defense Plans: Summary Update for Fiscal Year 2004*, July 2003.